

CITY OF FLAGSTAFF TRANSACTION PRIVILEGE (SALES) TAX

REAL PROPERTY RENTALS

This publication is for general information about the City of Flagstaff Transaction Privilege (Sales) Tax on the rental of real property. The Transaction Privilege Tax is commonly referred to as a sales tax; however, the tax is on the privilege of doing business in Flagstaff. For complete details, refer to the Flagstaff City Code. **In case of inconsistency or omission in this publication, the language of the city code will prevail.**

WHO PAYS TRANSACTION PRIVILEGE (SALES) TAX ON RENTAL OF REAL PROPERTY?

You owe tax on real property rentals if you are in the business of renting or leasing commercial real property. Rental of residential property is not subject to city tax.

Examples of taxable rental properties include:

- * Office buildings
- * Stores
- * Factories
- * Parking and storage facilities
- * Banquet halls
- * Meeting rooms

TAX RATE ON RENTAL OF REAL PROPERTY

The City of Flagstaff tax rate is 1.601%. Effective July 1, 1997 the State of Arizona and Coconino County eliminated their Transaction Privilege Tax on real property rentals. Only the city's 1.601% tax applies to commercial rentals.

PROCEDURE FOR TRANSACTION PRIVILEGE (SALES) TAX PAYMENT

First, apply for a Transaction Privilege (Sales) Tax license from the City of Flagstaff licensing department; or call (928) 779-7614. Then, report and pay Transaction Privilege Tax to the city with the tax return provided by the licensing department. Taxpayers pay tax monthly, quarterly or annually based upon the annual city tax liability estimated by the taxpayer.

Income from the rental of real property is reported under business code 6510 on the city tax return.

FACTORING AND COLLECTING TRANSACTION PRIVILEGE TAX

Whether you charge the tax separately or factor the tax into the sales price, tax should be included in the gross income reported on the tax return. Deduction #11 then may be taken on the return for the city tax included in the gross income figure.

1. Factoring the Tax

You are allowed to include Transaction Privilege Tax in the amount charged, rather than show the tax separately. If you choose to do so, use factoring to "back into" the tax included in your gross sales. To factor the tax divide the gross income by 1 plus the tax rate. For rental of real property, the total tax rate is 1.601%. Thus, the gross income is divided by 1.01601. The result will be taxable income excluding tax. The difference between gross income and taxable income is tax collected.

Gross Income	Divided by 1.01601	=	Taxable Income
Including Tax)	(1 plus the Tax Rate)		(Excluding Sales Tax)

For example, if your gross income from rental activity totals \$100.00, tax included, and the tax is 1.601%, your tax calculation is:

Gross Income, including sales tax, of \$100.00 divided by 1.01601 equals taxable Income of \$98.42

$\$100.00 - \$98.42 = \$1.58$ tax collected, which can be taken as deduction #11 on the city tax return.

2. Collecting the Tax

If you choose to separately bill and collect the tax, you must remit the total amount collected even if it exceeds the calculated tax. The excess tax collected must be remitted to the city as excess tax.

SPECIAL SITUATIONS

1. Residential Property

The city does not impose a tax on rental income from residential property when it is rented as a principal place of residence. A residential rental is a principal place of residence if the renter occupies the rental for more than 29 consecutive days. Residential rentals for 29 days or less should be reported as taxable income under the hotel category.

2. Single-Unit/Single-Tenant

A person who has only one unit of commercial property with only one tenant is not considered to be in the business of renting real property and therefore not subject to sales tax with the following exceptions.(1) If a person has one unit of commercial property available for rent, and has one or more "lodging spaces" available for rent, such person shall be considered in the business of rental of real property. (2) A building owner who leases out a *portion* of that building to another has two units of property rented or available for rent.

3. Sub-Leases

Generally, the landlord that leases to the tenant in actual possession is the taxable landlord. An exception to this rule occurs when, in a chain of leases, the landlord closest to the tenant in actual possession is not in the business of renting real property. In that case, the next nearest landlord who is in the business of renting real property is taxable.

4. Additions to Rent

Extra charges included in rent for services such as cleaning, common area maintenance fees, late fees, repairs, real property taxes, security services, insurance and utilities are taxable as part of rental income.

5. Individual Utility Meters

If a landlord installs individual utility meters for each tenant and charges each tenant for this service based on the meter reading, then those utility charges are not taxable as rental income.

6. Renting to a Qualifying Hospital, Community Health Center, or Health Care Organization

Income from the rental of real property to a qualifying health care organization, a qualifying community health center, or a qualifying hospital is not taxable as rental income.

7. Renting to Governments

Income from the rental of real property to the U.S. Government, the State of Arizona, Coconino County, and all other government subdivisions, except municipalities, is not taxable.

FOR INFORMATION CALL:

(520) 779-7685 ext 7614
(520) 774-5281

OR WRITE:

City of Flagstaff
Sales Tax Division
211 W Aspen
Flagstaff, AZ 86001